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THE MONETARY CONFERENCE OF 1881.

THE EFFECT OF A

BI-METALLIC UNION

ON THE

Currencies of the Different Countries.

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"For the value of money in general, is the quantity of all the money in the world, in proportion to all the trade: but the value of money in any one country, is the present quantity of the current money in that country, in proportion to the present trade."—*John Locke.*

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The Monetary Conference.

The importance of the subject itself, as well as the character of much of the speculation that is indulged in as to the probable result of the Monetary Conference now in session in Paris, and the effect its action will likely have on the future of silver has been the occasion for the examination ot the question presented in these pages.

No doubt the action of the Conference, whatever it may be, will materially influence the future of silver, and, indirectly, the future of gold as well. The importance, therefore, of the decision of this Conference is not likely to be over-estimated.

The practical questions which at this time arise, are—

1. What would be the effect of a Bi-metallic Union, including England and Germany, on silver and on the currencies of the different countries?

2. What would be the result of a Union without England and Germany?

3. What will be the probable course of silver if no Union is formed and no international agreement is reached?

In the first place it is assumed as admitted that a Union of a sufficient number of commercial nations on a given ratio—whether that ratio be 16 or 15½, or some other within certain limits, does not matter—will hold the two metals at par, at that ratio. Certainly no one who understands the principles upon which bi-metallism rests, will question this.

What then would be the effect of a Union, including Germany and England, the different countries composing which engage to make silver as well as gold full legal-tender and to maintain open mints for the free coinage of both metals, at the European ratio of 15½?

The ratio of $15\frac{1}{2}$ is taken, for if any international ratio is agreed upon it will, for abundant reasons, be this ratio.*

But little reflection is needed, however, to show that such a change in the money systems of so many countries as a Bi metallic Union would involve must modify to some extent, for a time at least, the current of the metals, and in some degree affect the scale of valuation in all countries.

The nature and extent of the changes in the currencies of the several countries, and in the value of their money that will take place as the result of such a Union, are the great practical questions now before the Conference. It will help to comprehend what the effect of the adoption of international bi-metallism would be, if we group the different countries into classes according to their present money systems:

Class 1—Countries with the gold standard *as modified by convertible paper and subsidiary silver*, as England (embracing the United Kingdom), Germany, Scandinavia, Portugal, &c.

Class 2—Countries with the gold standard *as modified by convertible paper, silver under limited coinage and subsidiary silver*, as the United States, France, and the other States of the Latin Union.

Class 3—Countries with the silver standard, as India and China, or silver supplemented by inconvertible paper, as Austria.

Class 4—Countries without a metallic circulation, but with a paper valuation, approximating more or less closely to gold as the metallic standard, as in Russia and Turkey, or to a silver standard, as in some of the South American States.

But it should be understood, when we speak of the gold standard, or the silver standard, that there is, in fact, no such thing as a purely gold valuation in any country, or a purely silver valuation. The real standard, or scale of valuation, in any country, is its effective money, volume. Thus, while in England the standard of their money is gold, the gold itself has a reduced value because of the use

NOTE—*These questions have been elsewhere discussed by the writer and the reasons for the conclusions stated are not, therefore, repeated here; the object of this paper being to show the effect of a Bi-metallic Union on the money of the different countries.

of paper as money; and the real valuation is her whole effective money volume, consisting of gold, convertible bank notes and subsidiary silver. The true valuation in India is the actual volume of silver appropriated to monetary use; and in the United States the effective volume of gold, silver, bank notes and greenbacks.

Again, the use of paper* and silver in France and in the United States, as part of the money of these countries, determines in no small degree the quantity of gold that goes to England, or silver that goes to India or to China. Let either of these countries abandon silver altogether and a new distribution of gold would take place.

But passing these questions by, a little inspection will show that, while the composition of the currencies of the States in classes 1 and 2 differ, the *standard* is the same: That is, *gold supplemented, in some by paper equivalents only, and in others by paper and silver under limited coinage.* But in each the gold, paper, and silver have equal value, and the actual standard of valuation is, therefore, the same. When, however, the money system of the States in classes 1 and 2 is compared with that of class 3, a difference in the scale is met with. In the two first the standard is gold, modified by paper, or by silver under limited coinage, or by both. In the third class it is silver. The difference between these two planes, or levels of prices, on the ratio of 15½ between gold and silver, is now about 15 per cent.

The States of class 4, with paper valuations, while they remain so, will not be directly affected by a bi-metallic union, and may, therefore, be left out of present calculations.

Suppose now the proposed bi-metallic union to be formed, with England and Germany included, on the ratio of 15½ of silver to one of gold, what will follow? First, the difference between the level of prices in States with a gold, or modified gold, standard, and States with the silver standard, must disappear as all come under

NOTE—* "Every emission of a paper currency in any country drives out a portion of its coin, and augments the total amount of the currency of the world, in the same manner that an additional quantity of gold and silver from the mines would do it; and hence an emission of paper money any where must augment the currency every where after time has been afforded for its distribution."—*Condy Raguet.*

a common gold *and* silver valuation. That is, the valuation in all would become bi-metallic, instead of in some gold, or gold supplemented with silver, and in others silver.

This change to a bi-metallic level could take place only (1) by a decline of, say, 15 per cent. in the value of money in States with the gold, or modified gold standard (classes 1 and 2); or, (2) by a rise of 15 per cent. in States with the silver standard; or, (3) by a decline in part on one side and a rise in part on the other. This indeed is what would, undoubtedly, take place. But a decline in the value of money in the countries having now the modified gold standard, would be caused only by an increase in the quantity, or volume, of money, in each State. This increase would be made by accessions of silver, through international trade, proportional to the circumstances of each. If the decline from the present modified gold level to the bi-metallic level would be, say, 7 or 8 per cent. then, other things remaining the same, an increase of 7 or 8 per cent. in the volume might be expected, although the change in value is usually more rapid than change of volume, while the change is going on.

But on the above supposition, England would receive an accession of, say $35,000,000 to $40,000,000; Germany $25,000,000 to $30,000,000; France $65,000,000 to $70,000,000; the United States $40,000,000 to $50,000,000, and other States in like proportion.—But where is this $175,000,000 to $200,000,000 of silver to come from? The silver States can not give up this amount, for, long before this sum was subtracted from their currency the change from the level of the silver standard to the bi-metallic standard would have been reached by the appreciation of their money. Indeed, it seems to be the law, as stated above, that when changes in volume are taking place, that variations in value run much above or below the limits marked by changes of volume.* Especially is this true

NOTE—* "A real scarcity of money is always accompanied by an artificial scarcity which aggravates the effects of the former. If, for instance, a million of dollars in coin be exported, so as to produce an outcry about scarcity of money, timid people and speculation will withhold another million from circulation; the former because they are afraid to lend it, and the latter because they expect to profit by forcing down the prices of property and commodities to a still lower point, the effect of which would be to diminish the demand for the exportation of coin by reducing the prices of commodities."—*Condy Raguet.*

when money is drawn from circulation. Instead then, of accessions to the currencies of the States of classes 1 and 2—that is, States under a modified gold valuation—of $175,000,000 to $200,000,000 of silver, the shifting of a much less sum would doubtless suffice to bring all to a common level. But some accession there must be, and probably not less than from $125,000,000 to $150,000,000.

But the sources of such increase in the currencies of gold standard countries as there must be to bring about the change from this level to that of bi-metallism, must be mainly looked for elsewhere than from the present circulation of silver-using States.—Nevertheless, that these States would give up some share of their silver in the transition upward to the bi-metallic level must be expected. For where there is international trade, money will go from where it is cheap to where it is dear—from where it will buy less to where it will buy more. The chief source, however, would doubtless be from present stocks of bullion, from hoards and from new productions of the mines, which would for a time be absorbed by the States making the change from the gold to the bi-metallic scale. This change of currency level does not,however,involve exchanging gold for silver between any countries; nor would the accessions by one country be in gold and by another in silver, but the change from mono-metallism to bi metallism would be made—on the supposition that Germany and England are included in the Union—by each State absorbing silver to an amount equal to its proportion of the increase which the change from its present gold, or modified gold valuation, to a bi-metallic valuation, would require, and that would be the full extent of the effect of the change.

A writer in the London *Times*, of May 7th, reasons that under a change from the present English money system to the bi-metallic system, England would have to give up some $40,000,000 of her gold, in consequence of the depreciation this metal would undergo. But her gold would be depreciated only because of accessions to her money volume, and only in the same proportion as in other gold countries. In other words, the currency of England would undergo

a depreciation to the extent that its volume was increased by accessions of silver, but gold would not in consequence flow out of the country, because a like depreciation in gold would take place in every other country. But as in the change from bi-metallism to gold (as supplemented by silver under limited coinage) in parts of Europe and the United States since 1872, the currency of England as well as that of the Continent, has been appreciated to the extent that the whole volume has been kept down by the partial exclusion of silver, so now the change would be back to the former scale, by the re-admission of silver to full monetary use.

The reasoning of the *Times*' correspondent referred to, is, therefore clearly erroneous. England and Germany, as well as the rest of Europe, and the United States, would experience some accessions to their metallic circulation, attended no doubt with slight depreciation of gold, and thus of the metallic circulation as a whole, while a corresponding rise of silver, and hence of the money scale, in exclusively silver countries would take place. But this depreciation might be quickly taken up by increased industrial activity, and in some countries doubtless would be.

But, second, what would be the effect of a union between the United States, France, and the other States of the Latin Union, with, perhaps, Holland, Portugal, Spain, Austria and India, but without England and Germany? Such a Union doubtless could be formed, while one with England and Germany included seems doubtful. It is important then to carefully consider and well understand the results that would be likely to flow from such a Union. In the first place, it would be necessary to know whether England and Germany—especially Germany—would maintain respectively the present *status quo*, or whether Germany, after such a Union was formed, would proceed to sell her 500,000,000 marks (about $120,000,000) which Baron Thielmann estimates she has remaining of her old silver thalers; or whether she would re coin it, adjusting it to her new system, in the ratio of 15½ to her gold coins.

On the supposition that England and Germany would maintain the existing *status quo*, in the two countries respectively, then, the

question is: what would be the effect on the currencies of the different countries, of a Union without England and Germany? The answer is, the transition from the present modified gold standard of all states of classes 1 and 2, to the bi-metallic level, would be exactly the same, whether England and Germany joined the Union or not. Accessions to the metallic currency of all of the States now exclusively gold, or gold supplemented by silver under limited coinage, would take place, with, probably some slight depletion of the volume of silver in exclusively silver countries exactly the same as though all the countries joined the Union. The process, however, would be quite different in the latter case.

As soon as the mints of the countries forming the Union were opened to the free coinage of legal-tender silver, accessions would be made *first* to the currencies of these countries alone; but their money volume by this process, after a time, would become redundant as compared with the volume of England and Germany. Either gold or silver would then begin to flow over to these countries, and as silver would not be admitted, the overflow would be of gold. But England and Germany would take *no more*, but probably less, under these conditions, than they would if they belonged to the Union, for the Union receiving first the whole accessions would doubtless absorb more and pass over less than would fall to the other States if they were in the Union; only in this case their accessions would be in gold instead of in silver. The operation would then be as follows:

Instead then of England receiving an accession of, say, $35,000,000 or $40,000,000 of silver, Germany $25,000,000, France $70,000,000, the the United States $40,000,000, and so on, as in a Union of all, England and Germany would gain together, perhaps, sixty or seventy millions, *in gold*, and altogether the gold mono-metallic States might gain, say $80,000,000 to $100,000,000 of gold; while the United States, France and other States of the bi-metallic Union, instead of the single operation of gaining silver, would gain an increased supply of silver, and lose, as a *secondary* operation, some gold; but surely not more than $100,000,000 of gold altogether, would

be surrendered by the bi-metallic States, for this is as large a share of the total metallic increase, which would follow the transition to bi-metallism, as the gold mono-metallic States would receive as their distributive share, or as they could absorb without a redundancy that would be followed in turn by adverse balances and a restoration of the proper equilibrium. Nor would there be in this case, any more than in the other, a surrender of gold for silver by some States, or a change of silver for gold by others.

If, however, Germany should reserve the right to demonetize and sell her 500,000,000 marks of old silver thalers, which are now a legal-tender, and should, after a Union was formed, proceed to do so, that would alter the conditions of the problem to that extent, and so much more silver would have to be taken on, and so much more gold given up, by bi-metallic states.

On the other hand, if the limit of legal-tender for subsidiary silver should be raised in gold countries and its coinage increased, or the volume of their paper currency enlarged, then their absorption of gold would be correspondingly lessened. Again, if States now on a paper valuation, as Italy and Austria, should resume specie payment with bi-metallism as the basis, these States would absorb a considerable part of the metals that otherwise would form accessions to the currencies of metallic money States. Or, again, it would be within the power of France and the United States, by simply reducing their paper issues, to absorb all the silver that would flow to them as bi-metallic countries, without giving up any of their gold.

To sum up the whole question, then: The utmost that the gold, mono-metallic countries could gain under a bi-metallic Union, without England and Germany, if the present *status quo* of these countries respectively is maintained, would be from 60 to 80 millions of gold,—certainly not a hundred millions under the most favorable conditions for them; and even with Germany free to demonetize the rest of her full-tender silver, two hundred or two hundred and twenty millions would be the maximum quantity of gold that would need to be given up by the bi-metallic States,

while their accessions would be greatly more than that in silver. On the other hand, every new demand for the metals to take the place of paper, or for other purposes, would lessen this proportion. Germany, however, would undoubtedly engage to maintain, and probably to recoin, her present stock of silver thalers, and, perhaps, to enlarge somewhat her legal-tender silver coinage. If England, too, in addition to maintaining open mints and the single silver standard in India, would engage to raise the legal-tender limit and enlarge her volume of subsidiary silver, the task of maintaining the parity of gold and silver, by the Union would be to that extent lightened.

But, at this point, an important question arises; who would be the gainers by such a Union? The first impression, and that which at this time prevails throughout the public press is, that England and Germany would be the gainers, and that the States forming the Union would be losers. But this is a hasty conclusion. The country which discovers and opens new mines of the precious metals, whether gold or silver, is not considered a loser. The new metal first goes to swell the currency of the country possessing the mines, and gives new impetus to its industries. This to a country like the United States or France, which has highly organized industries, is of immense consequence. But when the currency of such a country becomes redundant by additions from its mines the excess flows to other countries. If bi-metallic, the overflow may be of its gold or its silver. But the advantage of such accessions would be *primarily* to the country possessing the mines and *secondarily*, only, to others.

Precisely similar results would follow to and between such a bimetallic Union as is supposed to be formed between the United States, France, and other States of Europe, with England and Germany standing outside. The benefits, *primarily*, would fall to the States composing the Union, and *secondarily* only to England and Germany.

It only remains to consider a very stupid proposition which is understood to have had its first emanation from Washington, and

has since gone the rounds of the press of this country; and that is, if the Conference fails, to immediately stop the coinage of silver in the United States, *and thereby drain Europe of its gold!*

In the first place, suppose we could drain Europe of its gold, who would be benefited? Would Europe be likely to buy more of our products, drained of its gold, than now? It is a market for our products that we want more than we want, under present circumstances, more of the gold of Europe. We produce thirty to forty millions of gold each year, and the time will soon come when we will want to part with some portion of this product of our mines for something that will do us more good. We can not go on forever absorbing 30 or 40 millions* of gold into our currency annually. It is not desirable that we should; and much less would it be a gain, even were it possible, to buy all the gold of Europe. This is the old mercantile theory of wealth revived.

But, pray, how will the closing of our mints against silver draw gold in such abundance here? It would be worth something to get at the *modus operandi* of such a movement. We now coin twenty-four or twenty-five millions of silver annually. Suppose we do stop that, and suppose—which would not necessarily follow—that gold to this amount would flow in to take the place of the silver. That would bring us $25,000,000 in a year. But, suppose, as we are likely to do—and in fact as we are now doing, any way—that new bank notes to the amount of twenty-five millions a year are put out, would not the space now occupied by silver be taken up by bank notes, so that no vacuum would be left, to be filled up by gold? Indeed, if bank notes continue to increase as they have since Congress adjourned, it will not be long till the movement of gold will be *from* us, whatever action may be taken as to silver. The sale abroad of American securities, or the payment of such securities, will, of course, modify, and for a time may reverse, the current that otherwise would set in.

Or, again, suppose the Secretary of the Treasury should pay out

NOTE.—* Of course the gold consumed in the arts is to be deducted.

of the store of $150.000.000 of idle gold now in the Treasury, on our already matured debt, twenty-five, fifty, or seventy-five millions —as he may with perfect safety do, and ought for the public good to do—then gold might begin to move the other way, and not to our detriment, in that case, either. There is one way, however, by which Europe could be compelled to give up some part of her gold, and that is by reducing our paper volume, say from $700,000,000 to three or four hundred millions; but would we gain by it? Evidently not, nor will we gain by demonetizing silver again, or by stopping its coinage. It would be a very rational move, however, to declare our volume of paper, as it now stands, large enough, and put a limit not higher than $700,000,000, to which volume our paper money has already, nearly, if not quite, attained. What folly to become fright ened at $90,000,000 of silver with $700,000,000 of paper and 2,200 National Banks active in putting out more! Let the issue of paper cease, but let the coinage of the metals go on. No country can long have too much metallic money; when that becomes excessive it takes wings of itself and flies away.

Indeed, the question is debatable, if not demonstrable, that the United States alone could uphold the parity of gold and silver, on her present ratio, and that she would be greatly the gainer in doing so, but it is not proposed to enter upon this phase of the subject here.

There is, however, one consideration connected with the proposed suspension of silver coinage in the United States that should be kept in view, and that is, that India, in such an event, would probably be constrained to close her mints, or at any rate to limit the coinage of silver, in order to protect herself from further depreciation of her currency as compared with that of Europe. The separation between the metals would then be greatly widened. Gold would be appreciated as compared both with silver and with commodities; silver would fall. By what process would they ever be brought together again? Europe and the United States would then be doomed to become mono-metallic, save, perhaps, to the extent that silver is already held as coined money.

The future supply would then be limited to the waning production of gold. Would the United States, under such conditions draw gold from Europe? Under such conditions the metallic part of its money volume would almost certainly be reduced, and the fall would be marked by an outflow of gold—not by an inflow. And then, behind all this, lies the greater question of the consequences to the different countries of the world, and to mankind of a money that is constantly undergoing appreciation;* and especially burdened as the world now is with its forty thousand millions of debt, the weight of which would be increased with every increase in the value of money.

NOTE—* See Appreciation of Money, by the author, 1877.